

City of Surprise Residential Real Property Rental Transaction Privilege Tax

WHO MUST HAVE BUSINESS LICENSE?

You must have a City of Surprise business license if you are in the business of leasing, licensing or renting residential real property located within the City of Surprise this includes property managers, brokers and individual property owners. Examples of residential rentals include: houses, apartments, manufactured homes, and mobile home (trailer) spaces.

WHAT IS THE CITY TAX RATE?

The City's tax rate is 2.2%.

HOW IS TAX REPORTED?

City Privilege Taxes are reported on the TPT-1 Arizona Transaction Privilege and Use Tax Return. The City tax is reported on a line labeled SP-000. If an Arizona Department of Revenue Joint Tax Application, or an Arizona Transaction Privilege and Use Tax License Update Form have been submitted, the TPT-1 will be mailed monthly with all appropriate lines preprinted on the return. Any lines that are not preprinted may be hand written on the next available blank line. TPT-1 returns are due and payable the 20th of the month following the reporting period. TPT-1 returns are available at <http://www.azdor.gov/Forms/TPT.aspx>.

WHO IS TAXABLE?

A person who has two or more residential units rented or available for rent in the State of Arizona must pay tax to the City of Surprise from rental income for the units located within the City. A property manager or broker who manages residential rental units must pay tax to the City of Surprise from rental income for the units located within the city, even if an individual owner would not be taxable.

However, a person who has one unit of commercial property rented or available for rent in the state of Arizona must pay tax to the City of Surprise from rental income of all commercial and residential units located within the City of Surprise, even though said person may have fewer than two (2) residential units.

WHAT IS TAXABLE?

All amounts paid by the tenant under terms of the lease agreement are gross income to the lessor. All amounts paid by the tenant to the lessor or paid on the lessor's behalf are gross income including property tax (paid to the lessor or the County), mortgage, repairs, pet fees, non-refundable deposits, forfeited deposits and recoveries due to court action.

DEDUCTIONS THAT CAN BE TAKEN (when included in the gross income on the front of your tax return):

- City Sales Tax Collected whether charged separately or included in the lease price
- Bad Debts on which tax was paid on a previous TPT-1 return
- Discounts, Refunds or Returns
- Leases to “Qualifying Health Care Facilities,” including: Hospitals, Nursing Homes & Dialysis Centers.
- Utility charges **only if** individual utility meters have been installed for each tenant and the lessor charges each tenant the exact billing from the utility company.
- The fair market value of one apartment provided rent free to a property employee for each fifty apartments on the property.

CALCULATING THE TAX

You may choose to charge the tax separately or you may include tax in your price. If you include tax in your price (no separate charge for tax), you may back out the tax in order to compute the amount of tax included in your gross income. The formula is:

TAXABLE SALES divided by 1 + CITY TAX RATE OF 2.2%.

Calculate the tax deduction as follows:

Taxable Leases ÷ Factor (1.022) = Computed Taxable Income

Taxable Leases less Computed Taxable Income equals your deduction for tax collected.

Example: \$3,000 ÷ 1.022 = \$2,935
 \$3,000 - \$2,935 = \$65 (tax collected deduction)

If more tax was collected than was due, the City’s portion of excess tax collected must be paid to the City, unless it is refunded to the customer. Please refer to the TPT-1 Tax Instruction Sheet for instructions on how to report excess tax collected or the tax collected deduction.

This is general information only. For complete details, refer to the City of Surprise Model City Tax Code Section 3.14-445.